

DETROIT ACADEMY OF ARTS AND SCIENCES  
FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2008

DETROIT ACADEMY OF ARTS AND SCIENCES  
FINANCIAL STATEMENTS  
JUNE 30, 2008

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**GREGORY  
TERRELL  
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors  
Detroit Academy of Arts and Sciences

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Detroit Academy of Arts and Sciences as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

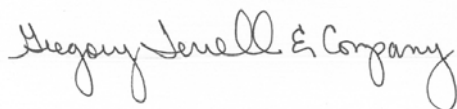
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Detroit Academy of Arts and Sciences as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated October 27, 2008 on our consideration of the Detroit Academy of Arts and Sciences' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

**GREGORY TERRELL & COMPANY**  
Certified Public Accountants

October 27, 2008

**DETROIT ACADEMY OF ARTS AND SCIENCES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2008**

**The Academy As A Whole**

Recall that the statement of net assets (deficit) provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2008 and 2007:

<b>TABLE 1</b>	Governmental Activities	
	June 30 2008 (in millions)	2007
<b>Assets</b>		
Current and other assets	\$ 8.8	\$ 9.5
Capital assets	<u>24.7</u>	<u>24.4</u>
Total assets	33.5	33.9
<b>Liabilities</b>		
Current liabilities	3.5	4.3
Long-term liabilities	<u>32.1</u>	<u>31.5</u>
Total liabilities	<u>35.6</u>	<u>35.8</u>
Net Assets (Deficit)		
Invested in property and equipment – Net of related debt	(8.0)	(7.2)
Restricted	4.7	4.8
Unrestricted	<u>1.2</u>	<u>(.5)</u>
Total net assets (deficit)	(2.1)	(1.9)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net deficit was (\$2,100,496) at June 30, 2008. Capital assets, net of related debt totaling (\$7,997,139), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the academy's ability to use those net assets for day-to-day operations. The unrestricted net asset of \$1,222,180 is composed of an operational surplus, on a governmental funds basis, of \$1,792,955, and accrued interest payable of (\$570,775) which is not included as a liability in governmental funds because this liability will be paid from the subsequent year's revenue.

The \$1,222,180 in unrestricted net results of operations from governmental activities mentioned above represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008 compared with fiscal year 2007.

**DETROIT ACADEMY OF ARTS AND SCIENCES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2008**

<b>Table 2</b>	<b><u>Governmental Activities</u></b> <b>(in millions)</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Program revenue – Operating grants	\$ 2.7	\$ 2.5
General revenue:		
State foundation allowance	14.8	15.9
Other	<u>0.4</u>	<u>0.4</u>
Total Revenue	17.9	18.8
<b>Functions/Program Expenses</b>		
Instruction	6.7	7.3
Support services	7.1	6.5
Food Services	0.5	0.5
Interest on long-term debt	2.8	2.6
Depreciation (unallocated)	<u>1.0</u>	<u>1.2</u>
Total functions/program expenses	18.1	18.1
<b>Increase (decrease) in Net Assets</b>	\$ (.2)	\$ .7

**Increase (Decrease) in Net Assets**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$18,151,997. Certain activities were partially funded from those who benefited from the programs \$138,130 or by other governments and organizations that subsidized certain programs with grants and contributions \$2,677,954. We paid for the remaining “public benefit” portion of our governmental activities with \$14,784,669 in state foundation allowance, and with our other revenues, i.e., interest and other revenues.

The Academy experienced a decrease in net assets of \$224,973. The key reason for the change in net assets was the fact that depreciation expense exceeded the excess of revenues over expenditures (depreciation is not included in expenditures for fund accounting purposes, but is included when calculating net assets).

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

**The Academy's Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$6,467,418, which is an increase of \$139,847 from last year. The primary reason for the increase relates to the excess of revenues over expenditures in the General Fund in the amount of \$284,752.

**DETROIT ACADEMY OF ARTS AND SCIENCES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2008**

In the General Fund, our principal operating fund, the fund balance increased from a \$1,508,203 to \$1,792,955. The change is due mainly to various cost-cutting efforts in several areas primarily reflecting the lower enrollment.

The Debt Service Fund showed a fund balance decrease of \$41,360. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

The Capital Projects Fund fund balance decreased \$103,545, due to Rock Property's purchase and financing of a facility unrelated to the Academy's operations.

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2008. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements.

There were significant revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased \$29,217 principally due to:

- An increase in Federal grant revenues resulting from carryover of 2006-2007 grant monies that were unexpended as of June 30, 2007 in the approximate amount of \$159,736 and the amendment of expected 2007-2008 grant monies to the actual amount received increasing these funds in the amount of \$353,190;
- An increase due to the amendment of expected 2007-2008 State At-Risk grant monies to the actual amount received increasing these funds in the amount of \$101,440; and
- A decrease in State Aid revenue resulting from lower actual student enrollment than original estimates of \$521,549.

Budgeted expenditures were decreased \$26,168 in various accounts.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2008, the Academy had \$24,693,224 invested in a broad range of capital assets, including land, buildings, furniture, and equipment and related depreciation. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$350,963, or 1 percent, from last year, resulting

**DETROIT ACADEMY OF ARTS AND SCIENCES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2008**

principally from the continued depreciation of the Academy's assets and Rock Property's investment in an additional facility unrelated to the Academy's operations.

	<b>2008</b>	<b>2007</b>
Land	\$ 570,420	\$ 440,420
Buildings and building improvements	28,525,602	27,237,588
Furniture and equipment	<u>3,579,960</u>	<u>3,624,535</u>
Total capital assets	\$ 32,675,982	\$ 31,302,543

This year's additions totaled \$40,009.

The Academy has no plans to spend the remaining restricted moneys in the Capital Projects fund, approximating \$442,000, during the 2008-2009 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

***Debt***

At the end of this year, the Academy had \$28,800,000 in bonds outstanding versus \$29,200,000 in the previous year – a change of 1 percent. Those bonds consisted of the following: \$28,800,000 serial bonds due in annual installments of \$400,000 to \$2,500,000 through October 31, 2031, interest at 7.5 to 8 percent.

The Academy is party to a capital lease, the remaining balance of which is \$2,717,638 at June 30, 2008, payable in monthly installments of \$25,000 through September 2015.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

**Rock Property Management, Inc.**

As noted in the footnotes to the financial statements, the accounts of Rock Property Management, Inc. are included in the Academy's financial statements as a blended component unit of the Academy. During the 2007-2008 fiscal year, Rock Property Management, Inc. ("Rock"), a legally separate 501(c)(3), nonprofit corporation formed to provide charitable education services, purchased a facility for purposes that are unrelated to the Academy. The Academy is not financially or legally liable for the purchased facility, but the facility cost and related debt are included in the Academy's financial statements under the theory that Rock is fiscally dependent upon the Academy and a material amount of the transactions of Rock relate to the Academy. However, it should be noted that the Academy 1) cannot and does not significantly influence the programs, projects, or activities of Rock, 2) is not entitled nor legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, Rock related to this facility transaction, and 3) is not obligated in any manner for the debt of this facility transaction. The facility is shown in these financial statements with an asset value of \$1,418,014 and the related long-term indebtedness of \$1,172,724 and a note payable of \$118,014 in the Capital Projects Fund.



DETROIT ACADEMY OF ARTS AND SCIENCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

**Economic Factors and Next Year's Budgets and Rates**

Our officials and administration consider many factors when setting the Academy's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 90 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008 school year, we anticipate that the fall student count will be approximately 100 students higher than the estimates used in creating the 2008 budget. Once the final student count and related per pupil funding is validated, the Academy will amend the budget in accordance with State law.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The Legislature will hold another revenue-estimating conference in early calendar 2009. Due to the current financial market issues facing most states, there is the possibility that there could be a change in the State's ability to fund the appropriation.

DETROIT ACADEMY OF ARTS AND SCIENCES  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 692,808
Due from Other Governmental Units	3,188,527
Restricted Assets	4,524,167
Due from Other Funds	277,196
Prepaid Expenditures	<u>118,108</u>
<b>Total Current Assets</b>	<b>\$ 8,800,806</b>
<b>Noncurrent Assets:</b>	
Capital Assets	\$ 32,675,982
Less Accumulated Depreciation	<u>(7,982,758)</u>
<b>Total Noncurrent Assets</b>	<b>\$ 24,693,224</b>
<b>Total Assets</b>	<b><u>\$ 33,494,030</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 156,473
Accrued Expenditures	1,988,844
Due to Other Funds	277,196
Notes Payable	481,650
Current Portion of Long-Term Debt	<u>543,736</u>
<b>Total Current Liabilities</b>	<b>\$ 3,447,899</b>
<b>Long-Term Debt, Net of Current Portion</b>	<b>\$ 32,146,627</b>
<b>Total Liabilities</b>	<b><u>\$ 35,594,526</u></b>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	\$ (7,997,139)
Restricted for Debt Service	4,350,305
Restricted for Capital Projects	324,158
Unrestricted	<u>1,222,180</u>
<b>Total Net Assets</b>	<b>\$ (2,100,496)</b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 33,494,030</u></b>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Governmental
		<u>Charges for Services</u>	<u>Operating Grants</u>	Net (expenses) Revenue and
				<u>Changes in Net Assets</u>
Governmental Activities:				
Instruction	\$ 6,721,161	\$ -	\$ 1,466,665	\$ (5,254,496)
Support Services	7,066,058	-	-	(7,066,058)
Food Services	583,732	138,130	334,867	(110,735)
Community Services	97,246	-	-	(97,246)
Loss on Disposal of Capital Assets	81,477	-	-	(81,477)
Interest on Debt	2,503,737	-	-	(2,503,737)
Unallocated Depreciation	<u>1,098,584</u>	<u>-</u>	<u>-</u>	<u>(1,098,584)</u>
Total Governmental Activities:	<u>\$ 18,151,995</u>	<u>\$ 138,130</u>	<u>\$ 1,801,532</u>	<u>\$ (16,212,333)</u>
General Revenues:				
State of Michigan school aid unrestricted				\$ 15,661,091
Local Revenue				162,858
Investment Revenue				<u>163,413</u>
Total General Revenues				<u>\$ 15,987,362</u>
Change in Net Assets				\$ (224,971)
<b>Net Assets, Beginning of Year</b>				<u>(1,875,525)</u>
<b>Net Assets, Ending of Year</b>				<u>\$ (2,100,496)</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Assets					
Cash and Cash Equivalents	\$ 692,814	\$ 442,172	\$ 4,081,995	\$ (6)	\$ 5,216,975
Due from Other Governmental Units	3,176,124	-	-	12,403	3,188,527
Due from Other Fund	8,886	-	268,310	-	277,196
Prepaid Expenditures	118,108	-	-	-	118,108
Total Assets	<u>\$ 3,995,932</u>	<u>\$ 442,172</u>	<u>\$ 4,350,305</u>	<u>\$ 12,397</u>	<u>\$ 8,800,806</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts Payable	\$ 152,956	\$ -	\$ -	\$ 3,517	\$ 156,473
Accrued Expenditures	1,418,069	-	-	-	1,418,069
Due to Other Funds	268,316	-	-	8,880	277,196
Notes Payable	363,636	118,014	-	-	481,650
Total Liabilities	<u>\$ 2,202,977</u>	<u>\$ 118,014</u>	<u>\$ -</u>	<u>\$ 12,397</u>	<u>\$ 2,333,388</u>
Fund Balances					
Reserved for:					
Debt Service	\$ -	\$ 324,158	\$ 4,350,305	\$ -	\$ 4,674,463
Prepaid Expenditures	118,108	-	-	-	118,108
Unreserved, reported in:					
Unrestricted	1,674,847	-	-	-	1,674,847
Total Fund Balances	<u>\$ 1,792,955</u>	<u>\$ 324,158</u>	<u>\$ 4,350,305</u>	<u>\$ -</u>	<u>\$ 6,467,418</u>
Total Liabilities and Fund Balances	<u>\$ 3,995,932</u>	<u>\$ 442,172</u>	<u>\$ 4,350,305</u>	<u>\$ 12,397</u>	<u>\$ 8,800,806</u>
Total Governmental Fund Balances					\$ 6,467,418
Amounts reported for governmental activities in the Statement of Net Assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					24,693,224
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.					(32,690,363)
Accrued interest payable is not included as a liability in governmental funds					(570,775)
Net assets of governmental activities					<u>\$ (2,100,496)</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>					
Local Sources:					
Investment Income	\$ 23,973	\$ 14,469	\$ 124,971	\$ -	\$ 163,413
Other	-	120,000	42,858	138,130	300,988
State Sources	15,661,091	-	-	-	15,661,091
Federal Sources	<u>1,466,665</u>	<u>-</u>	<u>-</u>	<u>334,867</u>	<u>1,801,532</u>
Total Revenues	<u>\$ 17,151,729</u>	<u>\$ 134,469</u>	<u>\$ 167,829</u>	<u>\$ 472,997</u>	<u>\$ 17,927,024</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Basic Programs	\$ 6,190,021	\$ -	\$ -	\$ -	\$ 6,190,021
Added Needs	<u>531,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>531,140</u>
Total Instruction	<u>\$ 6,721,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,721,161</u>
Support Services:					
Pupil	\$ 918,631	\$ -	\$ -	\$ -	\$ 918,631
Instructional Support	883,067	-	-	-	883,067
General Administration	1,092,515	-	-	-	1,092,515
School Administration	840,838	-	-	-	840,838
Business	643,797	-	-	-	643,797
Operations and Maintenance	2,035,745	-	-	-	2,035,745
Transportation	29,806	-	-	-	29,806
Central	<u>621,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>621,659</u>
Total Support Services	<u>\$ 7,066,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,066,057</u>
Capital Outlay	<u>\$ 40,009</u>	<u>\$ 1,418,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,458,023</u>
Community Services	<u>\$ 97,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,246</u>
Food Service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 583,732</u>	<u>\$ 583,732</u>
Debt Service:					
Principal Retirement-Bonds	\$ -	\$ -	\$ 400,000	\$ -	\$ 400,000
Principal Retirement-Land Contract	-	-	105,714	-	105,714
Principal Retirement-Commerce Bank	-	-	7,275	-	7,275
Interest-Bonds	-	-	2,298,100	-	2,298,100
Interest-Land Contract	-	-	194,286	-	194,286
Interest-Commerce Bank	<u>-</u>	<u>-</u>	<u>35,583</u>	<u>-</u>	<u>35,583</u>
Total Debt Service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,040,958</u>	<u>\$ -</u>	<u>\$ 3,040,958</u>
Total Expenditures	<u>\$ 13,924,473</u>	<u>\$ 1,418,014</u>	<u>\$ 3,040,958</u>	<u>\$ 583,732</u>	<u>\$ 18,967,177</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 3,227,256</u>	<u>\$ (1,283,545)</u>	<u>\$ (2,873,129)</u>	<u>\$ (110,735)</u>	<u>\$ (1,040,153)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Financing Sources	-	1,180,000	-	-	1,180,000
Operating Transfers In	-	-	2,831,769	110,735	2,942,504
Operating Transfers Out	<u>(2,942,504)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,942,504)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 284,752</u>	<u>\$ (103,545)</u>	<u>\$ (41,360)</u>	<u>\$ -</u>	<u>\$ 139,847</u>
Beginning of Year	<u>1,508,203</u>	<u>427,703</u>	<u>4,391,665</u>	<u>-</u>	<u>6,327,571</u>
End of Year	<u><u>\$ 1,792,955</u></u>	<u><u>\$ 324,158</u></u>	<u><u>\$ 4,350,305</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,467,418</u></u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2008

<b>Net change in fund balances total governmental funds</b>	<b>\$ 139,847</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,098,584)
Capital Outlay	1,458,023
Loss on Disposal of Capital Assets not reported in governmental funds	(81,477)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	24,231
Mortgage financing recorded as other funding sources in governmental funds but not in the statement of activities	(1,180,000)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (because it is a reduction of liabilities)	
Long-term debt:	
Bonds payable	400,000
Land contract payable	105,714
Commerce Note Payable	7,275
<b>Change in net assets of governmental activities</b>	<b><u>\$ (224,971)</u></b>

The accompanying notes are an integral part of this financial statement.



DETROIT ACADEMY OF ARTS AND SCIENCES  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2008

	<b>Student Activities - Agency Fund</b>
<b>Assets</b> - Cash	\$ <u>6,570</u>
<b>Liabilities</b> - Due to Student Groups	\$ <u>6,570</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive / (Negative)</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		
<b>REVENUES:</b>				
Local	\$ 87,600	\$ 24,000	\$ 23,973	\$ (27)
State Sources	16,081,219	15,661,110	15,661,091	(19)
Federal Sources	<u>1,051,917</u>	<u>1,564,843</u>	<u>1,466,665</u>	<u>(98,178)</u>
Total Revenues	<u>\$ 17,220,736</u>	<u>\$ 17,249,953</u>	<u>\$ 17,151,729</u>	<u>\$ (98,224)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic Programs	\$ 7,022,004	\$ 6,533,770	\$ 6,190,021	\$ 343,749
Added Needs	<u>364,882</u>	<u>567,165</u>	<u>531,140</u>	<u>36,025</u>
Total Instruction	<u>\$ 7,386,886</u>	<u>\$ 7,100,935</u>	<u>\$ 6,721,161</u>	<u>\$ 379,774</u>
Support Services:				
Pupil	\$ 955,740	\$ 975,677	\$ 918,631	\$ 57,046
Instructional Support	685,540	1,068,209	883,067	185,142
General Administration	937,181	1,002,719	1,092,515	(89,796)
School Administration	870,970	767,181	840,838	(73,657)
Business	676,172	680,031	643,797	36,234
Operations and Maintenance	2,214,050	2,195,004	2,035,745	159,259
Transportation	5,000	27,000	29,806	(2,806)
Central	<u>300,292</u>	<u>473,793</u>	<u>621,659</u>	<u>(147,866)</u>
Total Support Services	<u>\$ 6,644,945</u>	<u>\$ 7,189,614</u>	<u>\$ 7,066,057</u>	<u>\$ 123,557</u>
Capital Outlay	\$ -	\$ -	\$ 40,009	\$ (40,009)
Community Services	<u>\$ 49,679</u>	<u>\$ 89,457</u>	<u>\$ 97,246</u>	<u>\$ (7,789)</u>
Debt Retirement	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 14,081,510</u>	<u>\$ 14,380,006</u>	<u>\$ 13,924,473</u>	<u>\$ 455,533</u>
Revenues Over (Under) Expenditures	\$ 3,139,226	\$ 2,869,947	\$ 3,227,256	\$ 357,309
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In (Out)	<u>(3,139,223)</u>	<u>(2,814,559)</u>	<u>(2,942,504)</u>	<u>(127,945)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 3	\$ 55,388	\$ 284,752	\$ 229,364
Beginning of Year	<u>1,508,203</u>	<u>1,508,203</u>	<u>1,508,203</u>	<u>-</u>
End of Year	<u>\$ 1,508,206</u>	<u>\$ 1,563,591</u>	<u>\$ 1,792,955</u>	<u>\$ 229,364</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2008

(1) **ORGANIZATION**

Detroit Academy of Arts and Sciences (the "Academy") is a Public School Academy (K-12). The State of Michigan has delegated to Oakland University the responsibility of authorizing the establishment of public school academies. Oakland University approved the establishment of Detroit Academy of Arts and Sciences pursuant to the Michigan School Code of 1976 ("Code"), as amended.

The accounts of Rock Property Management, Inc. are presented as a blended component unit of the Academy under criterion established by Governmental Accounting Standards Board Statement No. 14. Rock Property Management, Inc. is a legally separate 501(c)(3) nonprofit corporation formed by the Academy to issue and service debt used to purchase the majority of the Academy's property, plant and equipment, but permitted by law to engage in non-Academy charitable educational activities. Rock Property Management, Inc. is fiscally dependent upon the Academy, but does not provide services exclusively to the Academy. The Academy leases its facilities from Rock Property Management, Inc. under capital leases that provide for transfer of those particular facilities' title after the associated long-term debt is repaid.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy's activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

**Measurement focus, basis of accounting, and financial statement presentation**

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS** (cont'd)

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt services fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to record bond proceeds or other revenue and disbursements of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Academy reports the following non-major governmental fund:

The *school service fund* is the Academy's primary non-major fund. It is used to account for food services operations. It is a subsidiary operation and obligation of the General Fund.

The *agency fund* is a fiduciary fund used to record transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.



DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by Detroit Academy of Arts and Sciences (the "Academy") are described below:

Cash Equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Restricted Assets

The unspent bond proceeds and related interest of the Capital Projects Fund and the Debt Service Fund require amounts to be set aside for construction and the repayment of bond principal, respectively. These amounts have been classified as restricted assets and total \$4,524,167 at June 30, 2008.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	20-40 years
Furniture and equipment	3-10 years

The Academy's capitalization policy is individual amounts exceeding \$500 and an estimated useful life in excess of three years.





DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

Long-Term Obligations

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs are capitalized as part of the building costs and amortized over the term of the related debt, which corresponds to the life of the building.

In the Fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgets and Budgetary Accounts

The General Fund and School Service Fund budgets were adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978).

For the year end June 30, 2008, expenditures exceeded appropriations as follows:

<b>General Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
General Administration	\$ 1,002,719	\$ 1,092,515	\$ (89,796)
School Administration	767,181	840,838	(73,657)
Transportation	27,000	29,806	(2,806)
Central	473,793	621,659	(147,866)
Community Services	89,457	97,246	(7,789)



DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(4) **DEPOSITS AND INVESTMENTS**

State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or trustees is secured in accordance with the requirements of the agency or trust agreement.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's policy does not address custodial credit risk. The Academy does not have investments with custodial credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy's investment policy does not restrict investment maturities. The Academy's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements of the Debt Service and Capital Projects Funds.

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices.

At the year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities/ Weighed Average Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Investment Pool	\$4,524,167	1 day	Aaa	Moody's

DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(4) **DEPOSITS AND INVESTMENTS (cont'd)**

Investments consist of investment pools that are held by the trust department of the bank and regulated by the Michigan Banking Act. Amounts are restricted assets for future payment of bond interest and principal and future construction activities funded by the Academy's bonds.

**Concentration of Credit Risk**

The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy's policy does not address concentration of credit risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Academy's policy prohibit investment in foreign currency.

(5) **CAPITAL ASSETS**

A summary of capital assets is presented below:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Land	\$ 440,420	\$ 130,000	\$ -	\$ 570,420
Building & Building Improvements	27,237,588	1,288,014	-	28,525,602
Furniture & Equipment	<u>3,624,535</u>	<u>40,009</u>	<u>84,584</u>	<u>3,579,960</u>
	\$ 31,302,543	\$ 1,458,023	\$ 84,584	\$ 32,675,982
Less Accumulated Depreciation	<u>6,887,282</u>	<u>1,098,584</u>	<u>3,107</u>	<u>7,982,759</u>
Net Capital Assets	<u>\$ 24,415,261</u>	<u>\$ 359,439</u>	<u>\$ 81,477</u>	<u>\$ 24,693,223</u>

Depreciation for fiscal year ended June 30, 2008 amounted to \$1,098,584. The Academy determined that it was impractical to allocate depreciation to the various Academy activities as the assets serve multiple functions.

(6) **NOTES PAYABLE**

Notes payable of \$481,650 consists of the outstanding balance of \$363,636 on a \$9,500,000 state aid anticipation note and \$118,014 outstanding on a \$300,000 construction line of credit from Detroit Commerce Bank. The state aid note calls for monthly payments of principal and interest from the Academy's state aid funds or general funds. The state aid note carries at a rate of 4.7% and is scheduled to mature in August 2008. The Detroit Commerce Bank construction line of credit calls for monthly payments of principal and interest at a rate of prime plus 1%, matures in October 2008, and is secured by real property of Rock Property Management Company that is not utilized by the Academy.

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DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(7) **LONG-TERM DEBT**

Through Rock Property Management, Inc., the Academy issued bonds through the Michigan Municipal Bond Authority to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The general obligation bonds are direct obligations, collateralized by the underlying fixed assets, and pledge the full faith and credit of the Academy. The Academy is required to transfer approximately 20 percent of its annual state aid membership revenue as lease payments to its bond trustee to be held for future payments of principal and interest.

The Academy is required to meet certain financial performance measures under the terms of the bonds.

Through Rock Property Management, Inc., the Academy entered into a land contract to purchase real property during the year ended June 30, 2006. The contract calls for monthly payments of \$25,000 through September 2015, with an interest rate of 7% and is secured by real property.

In addition, Rock Property Management, Inc. entered into a mortgage loan of \$1,180,000 with Detroit Commerce Bank during the year ended June 30, 2008 for the purchase of real property that is not utilized by the Academy. Mortgage is secured by real property. Rents from the lease of the mortgaged property have been assigned by Rock Property Management, Inc. to Detroit Commerce Bank.

Long-term debt activity can be summarized as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds	\$ 29,200,000	\$ -	\$ 400,000	\$ 28,800,000	\$ 400,000
Land Contract	2,823,353	-	105,714	2,717,639	113,356
Detroit Commerce Bank	-	1,180,000	7,276	1,172,724	30,380
Total	<u>\$ 32,023,353</u>	<u>\$ 1,180,000</u>	<u>\$ 512,990</u>	<u>\$ 32,690,363</u>	<u>\$ 543,736</u>

**DETROIT ACADEMY OF ARTS AND SCIENCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
(Continued)

(7) **LONG-TERM DEBT** (cont'd)

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 543,736	\$ 2,585,082	\$ 3,128,818
2010	648,429	2,514,496	3,162,925
2011	659,738	2,465,687	3,125,425
2012	771,918	2,412,257	3,184,175
2013	785,037	2,354,137	3,139,174
2014-2018	5,733,742	9,242,674	14,976,416
2019-2022	5,247,763	6,718,622	11,966,385
2023-2027	7,400,000	5,928,000	13,328,000
2028-2031	8,400,000	2,224,000	10,624,000
2032	<u>2,500,000</u>	<u>200,000</u>	<u>2,700,000</u>
Total	<u>\$ 32,690,363</u>	<u>\$ 36,644,955</u>	<u>\$ 69,335,318</u>

## **Governmental Activities**

### **Long-term debt consists of the following:**

\$30,000,000 serial bonds due in annual installments of \$400,000 to \$2,500,000 through October 31, 2031, interest at 7.5 percent to 8 percent.	\$ 28,800,000
Land contract payable in monthly installments of \$25,000 through September 2015, interest at 7 percent.	2,717,639
\$1,180,000 loan due in monthly installments of \$10,715 through October 31, 2012, interest at prime plus 1%.	<u>1,172,724</u>
	<u>\$ 32,690,363</u>

### **(8) DEFINED BENEFIT PENSION PLAN**

Plan Description – Detroit Academy of Arts and Sciences participates in the Michigan Public School Employees' Retirement System (MPERS), at statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSRES issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris, P.O. Box 30673, Lansing, MI 48909-8103.



(8) **DEFINED BENEFIT PENSION PLAN (cont'd)**

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district or participating Public School Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate total was 17.74 percent for the period October 1, 2007 through September 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions. Member Investment Plan (MIP) participants contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Academy's contributions to the MSPERS plan for the year ended June 30, 2008, was \$1,082,962.

(9) **RELATED PARTY TRANSACTION**

The Academy purchased office supplies of approximately \$24,000 from a company that is owned by a relative of the Academy's Superintendent.

(10) **CONTINGENT LIABILITIES**

During the year ended June 30, 2003, the Academy terminated its management services agreement with Edison Schools. At June 30, 2008, the Academy has a recorded liability of \$175,000 to Edison Schools. Other matters still exist and are pending resolution. Management does not believe any adjustments relating to these matters would be material to the basic financial statements.

DETROIT ACADEMY OF ARTS AND SCIENCES

SINGLE AUDIT REPORT

JUNE 30, 2008

DETROIT ACADEMY OF ARTS AND SCIENCES  
SINGLE AUDIT REPORT  
JUNE 30, 2008

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**GREGORY  
TERRELL  
& COMPANY**

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees of  
Detroit Academy of Arts and Sciences  
Detroit, Michigan

**Compliance**

We have audited the compliance of Detroit Academy of Arts and Sciences ("DAAS") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. DAAS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of DAAS' management. Our responsibility is to express an opinion on DAAS' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DAAS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of DAAS' compliance with those requirements.

In our opinion, DAAS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## **Internal Control Over Compliance**

The management of DAAS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered DAAS' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DAAS' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

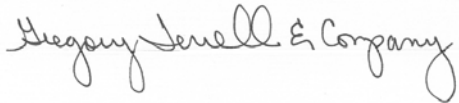
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of DAAS as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gregory Terrell & Company". The signature is written in dark ink on a light background.

**GREGORY TERRELL & COMPANY**  
Certified Public Accountants

October 27, 2008



**GREGORY  
TERRELL  
& COMPANY**

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Detroit Academy of Arts and Sciences  
Detroit, Michigan

We have audited the financial statements of Detroit Academy of Arts and Sciences ("DAAS") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

In planning and performing our audit, we considered DAAS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAAS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

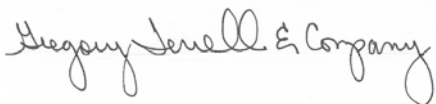
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether DAAS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of DAAS in a separate letter dated October 27, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**GREGORY TERRELL & COMPANY**  
Certified Public Accountants

October 27, 2008



DETROIT ACADEMY OF ARTS AND SCIENCES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 3008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2007	Current Year Receipts (Cash Basis)	Current Year Expenditures	Adjustments / Transfers	Accrued or (Deferred) Revenue at June 30, 2008
DEPARTMENT OF AGRICULTURE							
Passed through the Michigan Dept of Education							
National School Lunch Program	10.555						
Project Number 061960/041960		\$ 17,700	\$ 241,369	\$ 241,369	\$ -	\$ -	\$ -
Project Number 081970		91,095	-	322,464	334,867	-	12,403
Total		108,795	241,369	563,833	334,867	-	12,403
Total Food and Nutrition Cluster		108,795	241,369	563,833	334,867	-	12,403
DEPARTMENT OF EDUCATION							
Passed through the Michigan Department of Education							
Office of Elementary and Secondary Education Program.							
Title I, Part A - Improving Basic Programs	84.010						
Project # 061530 0607		102,576	49,196	49,196	-	-	-
Project # 071530 0607		830,696	262,322	381,196	118,874	-	-
Project # 081530 0708		1,095,625	-	790,845	1,000,338	-	209,493
Total		2,028,897	311,518	1,221,237	1,119,212	-	209,493
Safe & Drug Free Schools	84.186						
Project # 07XXXX 0607		15,775	9,250	9,250	-	-	-
Project # 082860 0708		9,250	-	9,250	9,250	-	-
Total		9,250	-	9,250	9,250	-	-
Title V - Part A Innovative Programs	84.298						
Project # 080250 0708		6,605	-	2,400	6,605	-	4,205
Total		6,605	-	2,400	6,605	-	4,205
Title II, Part D - Enhancing Education w/Tech	84.318						
Project # 064290 0506		12,816	12,816	12,816	-	-	-
Project # 084290 0708		18,824	-	18,824	18,824	-	-
Total		31,640	12,816	31,640	18,824	-	-
Title II, Part A - Teacher/Principal Training	84.367						
Project # 060520 0607		71,132	47,782	47,782	-	-	-
Project # 070520 0607		111,660	37,338	49,156	11,818	-	-
Project # 080520 0708		130,933	-	59,556	130,933	-	71,377
Total		313,725	85,120	156,494	142,751	-	71,377
Total Office of Elementary and Secondary Education Cluster		2,390,117	409,454	1,421,021	1,296,642	-	285,075
DEPARTMENT OF EDUCATION							
Passed through Wayne County RESA IDEA Flowthrough Special							
Education Grants to State							
Project # 06070050450	84.027A	149,168	31,923	31,923	-	-	-
Project #		160,143	-	144,129	160,143	-	16,014
Total Wayne RESA		309,311	31,923	176,052	160,143	-	16,014
TOTAL FEDERAL AWARDS		\$ 2,808,223	# \$ 682,746	# \$ 2,160,906	# \$ 1,791,652	# \$ -	# \$ 313,492

The accompanying notes are an integral part of this schedule.

DETROIT ACADEMY OF ARTS AND SCIENCES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2008

(2) **SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs of the Detroit Academy of Arts and Sciences (the "Academy"), and is presented on the same basis of accounting as the basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other agencies are included on the schedule. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) **GRANT SECTION AUDITOR'S REPORT**

The Academy utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

(4) **MAJOR PROGRAMS**

Major programs were determined in accordance with the Office of Management and Budget (OMB) Circular A-133, "*Audits of States, Local Governments and Non-Profit Organizations*".

(5) **FEDERAL AWARDS EXPENDITURES**

The reconciliation of Federal Awards Expenditures to Federal Revenue is presented below:

Federal Expenditures	\$1,791,652
Federal Reserve Sources per Financial Statements	<u>1,801,532</u>
E-Rate Grant classified as Federal Revenue Sources but not a federal grant program	<u>\$ 9,880</u>

DETROIT ACADEMY OF ARTS AND SCIENCES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2008

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency(es) identified no  
considered to be material weakness(es)? \_\_\_\_\_ yes   X   no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency(es) identified no  
considered to be material weakness(es)? \_\_\_\_\_ yes   X   no

Type of auditors’ report issued on compliance for  
major programs: Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133, Section  
.510(a)? \_\_\_\_\_ yes   X   no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
--------------------	--------------------------------

84.010	Title I Programs
--------	------------------

Dollar threshold used to distinguish between

Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

**Section II – Financial Statement Findings**

There were no financial statement findings

**Section III – Federal Awards Findings**

There were no federal award findings

DETROIT ACADEMY OF ARTS AND SCIENCES  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2008

**Financial Statement Audit Findings**

Reference  
Number

Findings

07-1

Significant Deficiency

During our audit we noted that the Academy does not maintain an integrated general ledger system. We recommend that a integrated general ledger system be maintained to capture all financial activity, including receivables, accounts payable and other accrued expenditures of the Academy.

Status

Resolved.



**GREGORY  
TERRELL  
& COMPANY**

October 27, 2008

To the Senior Management and  
Board of Directors of  
Detroit Academy of Arts and Sciences

In planning and performing our audit of the financial statements of Detroit Academy of Arts and Sciences (the "Academy") as of and for the year ended June 30, 2008, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated October 27, 2008, on the financial statements of Detroit Academy of Arts and Sciences.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**Miscellaneous Cash Accounts\***

The Academy receives cash and checks for various programs, including food service, latchkey, extracurricular activities, and fund-raising. Procedures for handling and depositing this remote cash are inconsistent among the various departments. In addition, reconciliation of these accounts to the general ledger is not being performed monthly.

We recommend that these accounts be handled on a consistent basis and reconciled to the general ledger on a monthly basis.

**Cash Disbursements**

While testing cash disbursements, we noted that supporting invoices and purchase orders were not always available for review and in certain instances had to be requested from vendors. To reduce the risk of the duplicate payment of invoices or costs charged to grant programs being disallowed, copies of all invoices, vouchers and purchase orders should be maintained in accordance with the Academy's document retention policy.

We wish to thank the Director of Finance and Finance Department personnel for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

**GREGORY TERRELL & COMPANY**

Certified Public Accountants

October 27, 2008

**\* Repeat Comment**